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FM AMEMBASSY KYIV  
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INFO RUEHRC/USDA WASHDC  
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SUBJECT: Ukraine: GOU Imposes New Grain Export Limits

Ref: Kyiv 1422

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1. (U) Summary: As foreshadowed by recent official statements (reftel), Deputy Prime Minister Victor Slauta announced June 20 that the Cabinet of Ministers has made a decision to limit exports of grain, beginning July 1, in order to form a state grain reserve and limit growth in bread prices. Political concerns in the run-up to the September 30 elections over increasing bread prices was the trigger: PM Yanukovych pledged to keep bread prices stable and threatened to fire ministers who failed to keep them low. In reality, there have been no significant increase in bread prices recently, but rumors of bread price rises clearly spooked the current government. End Summary.

#### CabMin Announces Limitation of Grain Exports

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2. (SBU) According to a June 20 announcement by Deputy Prime Minister Victor Slauta, the Cabinet of Ministers issued a resolution to limit exports of wheat and grain. The limitations come into effect on July 1. The resolution does not set the date, when the limitation is to be lifted and has a clause that the limitation is in place "until the stock is replenished", although Minister of Agrarian Policy Melnyk stated they would be in effect through October 1. (Note: As of June 22, the resolution had not yet been published.) The limitation will apply to milling wheat, corn and the mixture of wheat, barley and rye. Exports of only a token amount of 3 thousand tons of each type of grain will be permitted. Sources in the Ministry of Foreign Affairs told us Minister Yatsenyuk vehemently argued in the Cabinet meeting against imposing the export ban, but was overruled.

#### GOU Rationale - Bread Prices and Shortages

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3. (U) The GOU defended the decision to introduce the quotas, arguing that the drought had caused a scarcity of grain inside the country and referring to the politically-sensitive issue of growth in bread prices. After the GOU opened up exports of wheat this spring, domestic prices rose to approach world levels - wheat went

from \$173/ton on May 18 to \$209/ton on June 8. Prime Minister Yanukovych on June 14 ordered Slauta and Melnyk to come up with controls on bread prices, or lose their jobs. Politics quickly intruded: Deputy Prime Minister for Agrarian Policy Viktor Slauta accused opposition deputies from the Yuliya Tymoshenko bloc (BYuT) Trinduk and Khmelnitskiy of ordering bread price increases at bakeries under their control (in Dnepropetrovsk and Kyiv, respectively). The two deputies countered that these accusations were false.

#### Bread Prices Remain Stable So Far

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¶4. (U) Although data is not yet in for June, according to the Ukrainian Statistics Committee, bread prices grew modestly in May 2007 by 0.2% over April and 0.3% in April over March. The agricultural market analysis company UkrAgroConsult reported that prices for the three most popular types of bread have not changed much in May. Prices for bread from the flour of the 1st grade remained the same in 22 regions, grew 0.5-2.8% in 5 regions; prices for bread from wheat and rye flour did not change in 23 regions and grew by 0.5% - 3% in 4 regions; prices for bread from the flour of the higher grade remained the same in 24 regions, and grew by 1.2-3% in 3 regions. Nonetheless, according to anecdotal reports, bread prices have gone up in June in some regions by as much as twenty percent.

¶5. (U) Bread prices are controlled by local governments, who regulate only prices for three most common types of bread. However, these three types of bread account for over three-quarters of all bread consumed. Currently, local authorities have a range of instruments available to keep bread prices low. For instance, because many bakeries are responsible for over 35% of bread production in their respective regions, their ability to raise prices is limited by the Antimonopoly legislation. Local administrations also have the authority to set retail prices on

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bread, as an essential food product, in accordance with a December 1996 Cabinet of Ministers resolution.

#### Grain Stocks Reported on Sufficient Level

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¶6. (U) Another argument, used by the GOU in justifying the export limitations, is the concern that the drought, which hit 10 Ukrainian oblasts, may leave the state without adequate domestic grain supplies. According to the June 18 report of Deputy Prime Minister Slauta, the grain stock on hand in the country is 4.4 million tons, of which 2.5 million tons is wheat. This level is equivalent to that accumulated in the same period last year. (Note: Most of these stocks are in private hands, as only half a million tons are owned by the Agrarian Fund or the State Grain Reserve. End Note.) Agrarian Policy Minister Yuriy Melnik also confirmed at the June 20 Agrarian Policy Ministry meeting that current domestic grain stocks were sufficient to avoid a crisis. Moreover, the GOU is predicting a wheat crop of around 11.7 million tons, despite the drought, while projecting domestic consumption of only six to seven million tons for the next market year.

#### Ambassador Criticizes Export Ban

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¶7. (U) In a June 20 interview with Channel 5 television, Ambassador criticized the government's imposition of a ban. He argued it would be much better to let market mechanisms work, noting that a ban would harm Ukrainian farmers and the overall investment climate. MP's Hanna Herman and Vasyl Kiselov, who belong to the Prime Minister's party took exception to the Ambassador's remarks, terming them interference in domestic affairs.

¶8. (SBU) Comment: Although the ban could have been worse (some traders feared an immediate ban on exports), its speedy imposition points to political panic as the motive. As with the previous ban of last fall, there are clearly also interests (millers, bakers, and livestock producers) who will benefit from an export ban that

depresses domestic grain prices. However, for a government now facing elections in September, there is a clear interest to avoid politically-ruinous bread price increases -- at least until the elections are over. This time around, as traders have exported most of their stocks and not purchased more grain, the full weight of the ban will fall on domestic farmers and not on politically-expendable (and largely foreign) grain traders. The reaction of Ukraine's farmers will be key -- one trader told us he had heard already of plans by farmers to stage protests in Kyiv over the export ban.

TAYLOR